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IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. .....

DIETER HULSENBUSCH,
Petitioner.

vs.

THE DAVIDSON RUBBER COMPANY,
Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE EIGHTH CIRCUIT

Dieter Hulsenbusch, prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Eighth Circuit, entered in the above entitled case on April 28, 1965.

Citations to Opinions Below

The "Order" (Judgment) of the United States District Court for the Southern District of Iowa is unreported and is printed in Appendix B hereto, infra p. 14A*. The opinion of the Circuit Court of Appeals, printed in Appendix B hereto, infra, p. 2A, is reported in 344 F. 2d 730 (1965).

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*A refers to the Appendix hereto. R-A refers to the Certified Record which was not printed below but which has been filed herein.

Jurisdiction

The judgment of the Circuit Court of Appeals was entered on April 28, 1965. Rehearing was denied on June 21, 1965. The jurisdiction of this Court is invoked under 28 U.S.C. Section 1254(1).

Questions Presented

I.

Where, under controlling law and public policy of the State (and of virtually every state in the United States) a covenant by an employee not to compete (under an employment contract, precluding him from obtaining gainful employment with a competitor) is void and unenforceable and in restrant of trade unless there is proof that the employer is the owner of trade secrets "not generally known or used in the industry" and that the same were disclosed to such employee in confidence, is the judgment of a Federal District Court, affirmed by the Court of Appeals, violative of the doctrine of *Erie* v. *Tompkins* (and the constitutional provisions safeguarded thereunder) where, contrary to controlling state law, such covenant is upheld, and enforced against petitioner by the District Court, which refused to ascertain whether or not the respondent employer owned any trade secrets and excluded all testimony or inquiry by petitioner pertaining to the subject of trade secrets?

II.

Did the Courts below deny petitioner due process of law guaranteed by Amendment V of the Constitution of the United States where—

(i) The Federal District Court, contrary to controlling state law and public policy, upheld the validity of and enforced a covenant not to work for a competitor

under a provision of an employment contract, absent proof, and refusing to ascertain or to permit petitioner to inquire about or ascertain, what trade secrets respondent claimed to own or to have communicated to petitioner; and

(ii) The Circuit Court of Appeals predicated its affirmance of the judgment of the District Court upon the correct controlling rule of state law (not followed by the District Court) upon the express erroneous assumption that the District Court had made essential findings of "possession by respondent" of "trade secrets," "confidential disclosure to [petitioner]" and "divulging" the same to others by petitioner when, in fact, the District Court made no such findings and refused to ascertain or to permit petitioner to inquire about or ascertain what trade secrets respondent claimed to own or to prove that respondent neither owned nor communicated to petitioner any trade secrets, or that petitioner did not divulge any alleged trade secrets of respondent to others?

Constitutional Provision Involved

The provision of the United States Constitution involved is Amendment V. It is printed in Appendix A, infra, p. 1A.

Statement of The Case

Contrary to state law, and denying petitioner due process, the Federal Courts below upheld the validity of a covenant not to compete in an employment contract (of six months duration) and enjoined petitioner, Dieter Hulsenbusch, a crash pad engineer from West Germany, from taking gainful employment with any competitor of respond-

ent in the United States for two years, and from utilizing the knowledge and skills in which, by years of endeavor, he had become proficient.

The Trial Court rejected petitioner's defense that the covenant was void and against public policy because respondent neither owned nor communicated to petitioner trade secrets not generally known in the industry.[1] Moreover, the Trial Court refused to ascertain whether or not respondent owned trade secrets and refused to permit petitioner to inquire into the subject upon respondent's objection that such inquiry by petitioner was not relevant to the issue before the Court, i.e. the validity and enforceability of the no compete clause in petitioner's employment contract.

The judgment was affirmed by the Circuit Court of Appeals. The Circuit Court of Appeals recognized that, under controlling state law, covenants not to compete in employment contracts are void and contrary to public policy unless the employer owned and communicated trade secrets to the employee, (a rule rejected by the District Court). However, the Circuit Court of Appeals erroneously assumed that the Trial Court had

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[1] This controversy relates to the manufacture of foam "crash-pads" for dash boards in automobiles. Crash-pads are made according to the specifications and designs of the automobile manufacturers and they are generally changed each year. (R 146-7, 178A). Generally, the automobile manufacturers have two or more suppliers who make the same crash-pad. Prior to 1962, there were five manufacturers in the United States supplying "crashpads" for the automotive industry in the United States, (Goodyear, U.S. Rubber Co., Sheller Mfg. Co., and two divisions of General Motors (Inland and Ternstedt)). (R 139, 220-1, 226-7, 354A)

There were many manufacturers in Europe supplying the European automotive industry (R 383-4A), including Happich, petitioner's former employer in Germany which made crash-pads since 1957, at least five years before Davidson, in 1962, for the first time decided to enter into the crash-pad business, and before Happich or petitioner ever heard of Davidson. (R 354, 383-4A)

made "findings" that respondent (a) possessed trade secrets; (b) communicated them to petitioner; and (c) petitioner divulged them to a competitor of respondent.

Thus, the Circuit Court of Appeals applied the correct rule of state law and public policy (rejected by the Court below), but affirmed the Judgment below upon an erroneous assumption that the District Court had made "findings" of essential facts, which were not made by the District Court. The record indisputably shows that the District Court expressly refused to consider whether or not respondent possessed trade secrets not generally known to the industry, or communicated any such trade secrets to petitioner, and refused to permit petitioner to inquire about or offer proof in respect thereto at the trial. These basic issues of fact (essential to sustain the validity of the covenant not to compete) were not tried or determined by the District Court. The District Court expressly excluded them in the trial of the case and made no findings thereupon.[2]

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[2]There is now pending in the District Court (a) the issue of damages for breach of the covenant (Count 1) (see Judgment R 106A) and (b) Counts 2-5 of respondent's Complaint and damages thereupon (See Order (for Separate Trial) R 87A). These depend upon proof that respondent possessed trade secrets, communicated them to petitioner and that petitioner in turn divulged them to Sheller Manufacturing Corporation or others. The Court of Appeals concluded that the District Court had made findings against petitioner on this question (when in fact the District Court did not do so or permit petitioner to inquire into the subject) and expressly indicated its affirmance of the Judgment thereupon.

Also pending in the District Court is an action by respondent against Sheller Manufacturing Corporation which depends on proof that respondent possessed trade secrets, communicated the same to petitioner and that petitioner divulged the same to Sheller. The Circuit Court of Appeals has reached conclusions on this question without any proof or trial of these issues. (This Court may take judicial notice of these proceedings pending in the District Court. *Brown* v. *Board of Education*, 344 U. S. 1, 3 (1952)).

Sheller's General Counsel represented petitioner in the case at bar. The action against Sheller was not instituted until the case at bar was appealed to the Circuit Court of Appeals. See infra, p. 22.

Petitioner submits that upon this record there is a violation of the constitutional doctrine of *Erie* v. *Tompkins* and a clear denial of due process.

Respondent, Davidson Rubber Company, a New Hampshire Corporation with principal offices and plant at Dover, New Hampshire (hereinafter called "Davidson"), is a manufacturer of foam products (polyurethane) which it sells to automobile and furniture manufacturers.

Prior to 1962, Davidson did not make or sell "crash pads" for passenger automobile dash-boards. When United States Rubber Company discontinued the "crash pad" phase of its business, Davidson decided to enter the business.

In April, 1962, Davidson hired R. W. Woodburn, laboratory director and chief chemist of Sheller Manufacturing Company, which had for some time theretofore been a manufacturer of foam products, including crash pads for the automobile industry.[3] Sheller had made and sold crash pads since 1955. Woodburn took Sheller's crash pad foam formulas with him to Davidson and used them at Davidson. (R 549-51A) In May, 1963, Davidson also hired Robert Ecklund, Sheller's chief tool designer of crash pads. (R 161A)

In November, 1962, Davidson hired petitioner, Dieter Hulsenbusch, a citizen of West Germany, as a consultant to participate "in Davidson's entry into the automotive

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[3] Sheller is listed on the New York Stock Exchange and is also engaged in the business of manufacturing and selling to the automotive business, rubber steering wheels, extruded rubber products, steel stamping and screw machine products, cut gaskets, mold and dies for rubber and plastic products, plastic steering wheels and oil filters at eleven different plants.

crash pad field for a minimum of three and a maximum of six months'' starting in January 1963 (R 21A). Petitioner was an experienced crash pad engineer, having worked with G. b. m. H. Happich Company in Germany since 1951. Happich was in the crash pad business in Germany (not in the United States) since 1957—five years prior to Davidson's decision to enter the business in 1962. (R 354A)

Petitioner, while in the employ of Happich, visited every crash pad factory in the United States and a number in Europe (R 165, 354, 377, 383-4A). His knowledge and skill as a crash pad engineer was garnered from observing the operations of these manufacturers and from Happich—not from Davidson, which, until 1962 when it hired petitioner and Woodburn, had never been in the crash pad business.[4] None of respondent's employees had ever been in the crash pad business until that time. (R 281-2A)

The only exposure Davidson had to the crash pad business prior to 1962 (and prior to hiring the two Sheller employees, Woodburn and Ecklund, and petitioner) was merely an inspection of crash pad manufacturing operations in Europe, and at Goodyear Tire and U. S. Rubber Company in this country—clearly not trade secrets. (R 281-2A)

Hulsenbusch was paid $1,000 per month (or $6.25 per hour, or less than $250 per week) for his six months work

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[4] Happich was in the crash pad business for years prior to 1962 and prior to 1962 neither Happich nor petitioner Hulsenbusch, its then employee, learned any techniques concerning the manufacture of crash pads from Davidson.

That a covenant not to compete cannot be valid on the basis of items brought to the employer by the employee from a previous employment and which are a part of the skill of the employee is clear. *Kaumagraph Co.* v. *Stampagraph Co.*, 138 N.E. 485 (1923); *Hydraulic Press Mfg. Co.* v. *Lake Engineering*, 132 F 2d 403 (2nd Cir. 1942); *Friach Corporation* v. *Eazell*, 166 N.E. 2d 107 (1960); *Ridley* v. *Krout*, 180 P 2d 124 (Wyo., 1958)

at respondent Davidson's (R 21A), a rate no higher than that paid to thousands of tool makers and skilled workers in the automotive business today.

Under petitioner's employment contract, it was provided by respondent Davidson that:

> "3. It is my understanding that you currently have a contractual obligation to Happich which extends for approximately two years in which you agree not to work for competitors of his in Europe and that your proposed employment contract with Gallino will contain a similar provision for Italy. We expect you to observe the same kind of restrictions[5] for the U.S.
>
> "4. . . . any new developments or inventions resulting from your work with us will become the property of Davidson Rubber Company."

There is no evidence in the record that petitioner's "work" at Davidson resulted in "any new developments or inventions" which constituted trade secrets.

Petitioner Hulsenbusch's employment at Davidson ended in July, 1963. Petitioner took a short-term assignment with Sheller Manufacturing Company for a period of four months, from April 20, 1964, to August 20, 1964, as a consultant on "process engineering" in Sheller's crash pad operations at Keokuk, Iowa. (Ex 23, R 533A)

After Davidson heard about petitioner's employment, it commenced action against petitioner on May 20, 1964, in the Federal District Court at Davenport, Iowa, based upon diversity of citizenship, in the district where petitioner

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[5] Davidson hired petitioner in November, 1962. Davidson did not receive a copy of petitioner's contract with Happich until May 15, 1964 and admitted that it did not learn of the "restrictions" in detail until July, 1963. (R 259-61, 570A)

resided and was employed at Sheller's Keokuk, Iowa, Dryden-Keokuk Division.

Upon filing the Complaint, respondent Davidson obtained an ex parte temporary restraining order (R 36A) which enjoined petitioner from working for or disclosing "any" technical information to a competitor of respondent in the United States, which, upon the hearing on May 27, 1964, of the Order to Show Cause was modified, and by consent a temporary injunction was entered which allowed petitioner to continue to work for Sheller "as a process engineer" on "crash pads" (which Sheller hired him to do under its contract), pending trial.[6] (R 57A).

To provide a machinery for determining compliance with the temporary injunction, but without the Court deciding or determining whether Davidson had any trade secrets, Davidson deposited with the Court a *sealed* envelope containing its claims in respect thereto. With the consent of Sheller, an expert was selected to inspect the pertinent plant operations of both Davidson and Sheller to determine petitioner's compliance with the temporary injunction. To assist the Court and the expert, Sheller deposited in a sealed box its foam formulas and mold designs

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[6] Petitioner then resumed work at Sheller as a process engineer from May 27, 1964, until permanently enjoined on July 21, 1964, from working for any competitor of respondent in the United States until August 1, 1965. This alone does not conclude the matter. Damages are being sought against petitioner (as well as against Sheller Manufacturing Company) (see footnote 2, supra, p. 5, and infra, p. 22).

Petitioner (and Sheller) are being subjected to the jeopardy of liability and damages without a fair trial or opportunity to defend thereagainst because the Circuit Court of Appeals affirmed the Judgment below upon the express assumption that the Trial Court had made findings that respondent possessed trade secrets, communicated them to petitioner who in turn disclosed them to Sheller, notwithstanding the fact that the District Court expressly refused to try those issues.

as they existed prior to petitioner Hulsenbusch's employment by Sheller. It was agreed by the parties that if the expert saw a probability of violation of the injunction, he would so report it to the Court and have access to the deposited data. He made no report of a violation and the sealed envelope of Davidson's claims and Sheller's sealed box have never been opened. (R 424A)

The Complaint and Answer

The Complaint had five counts, all presumably based upon the same allegations contained in twenty-five numbered paragraphs. In substance, Davidson alleged that Davidson had trade secrets; that the same were disclosed in confidence to petitioner Hulsenbusch; that he had entered into an employment contract with it and agreed not to work for any competitor in the United States for two years thereafter; Hulsenbusch was working for Sheller, a competitor, and respondent "believed that defendant [Hulsenbusch] was turning over" such claimed trade secrets to Sheller on void-free foam, mold design, and a perforated radio grille.[7] (R 4-5A).

Petitioner (defendant below) denied Davidson possessed

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[7] Davidson also claimed that it had exclusive United States rights to trade secrets of petitioner's former employer in Germany, Happich Company, which on the record is not so.

In 1958, Davidson granted a patent license to Happich in Europe regarding arm rests—not crash pads—and in such connection disclosed certain polyurethane formulas for arm rests to Happich and to Hulsenbusch, then an employee of Happich. However, the basic polyurethane formula was an invention of Bayer (R 382-3A) and was a part of the public domain when used in the United States ("Accord Multilateral German Owned Patents" July 27, 1946, signed by the United States, November 30, 1946). In turn, the license required Happich to give its United States patent rights to all Happich's inventions on "arm rests" to Davidson, *and nothing else.* (R 79A)

Any disclosure made by Davidson to Happich or petitioner (prior to Davidson going into the crash pad business and prior to peti-

any trade secrets and denied that he knew of any crash pad foam formula of respondent other than that the same chemicals were used by Davidson as were previously used by Sheller, and these were disclosed to Davidson by a former Sheller employee hired by Davidson to assist it to enter into the crash pad business (R 21, 138-9, 267-9A). Petitioner alleged that the mold design techniques and radio speaker grille (both relating to "crash pads") were developed by petitioner prior to his employment by Davidson and were widely known in the industry (R 44-5A).

Petitioner asserted that the alleged agreement not to work for a competitor was ambiguous and not complete, in that it referred to documents not known to respondent, and therefore was not a contract. (R 40A)

More importantly, petitioner asserted that the "alleged restrictive covenant . . . is against public policy and is therefore void and unenforceable." (R 40A)

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tioner's going to work for Davidson), related solely to "arm rests" and not "crash pads" and clearly cannot support a later covenant by petitioner not to compete with Davidson in the "crash pad" business. Moreover, there is no proof that what was disclosed by Davidson to Happich about arm rests or anything else was in fact or law a trade secret. Nor did that disclosure about arm rests or license give Davidson any right to Happich's trade secrets, if any, in the crash pad business.

Davidson (not in the crash business prior to 1962) could not make its arm rest foam formulas produce crash pads when it decided to go into the crash pad business in 1962. (R 274-5, 355-6A) It produced a crash pad foam commencing March, 1963, only after Woodburn, Sheller's former laboratory director, brought and used Sheller's foam formulas as the basis therefor. (R 278-9, 550A) Petitioner was precluded by the District Court from having respondent state what the composition of respondent's formula was so that it could be compared with that previously used at Sheller or by others in the industry, and petitioner was thus denied the opportunity to prove that it was not in fact a trade secret of respondent Davidson.

The District Court by order, prevented petitioner from inquiring into or ascertaining what trade secrets respondent claimed to own or disclosed to petitioner in confidence.

To prepare his defense on the merits, petitioner took the depositions of Casey, respondent Davidson's general manager, and Woodburn, Davidson's research director, on June 22, 1964. During the deposition of Casey, the following question was asked:

> "By Mr. Vanker . . . (counsel for petitioner) . . .
>
> "Q. . . . Would you state what information you gave Mr. Hulsenbusch that you claim constitutes a trade secret or confidential information?" (R 573A)

Counsel for respondent instructed the witness not to answer this question or any question relating to so-called trade secrets or confidential information, and the witness refused to answer (R 572-3A).

The witness, Woodburn, was deposed and he stated that the alleged void-free foam formula claimed to have been developed at Davidson's when petitioner was there,[8] was a modification of a formula developed by Sheller which Woodburn took from Sheller to Davidson. When petitioner endeavored to ascertain the facts necessary to determine if respondent had a trade secret or was using a formula used by Sheller or others in the industry, Woodburn was instructed not to answer any questions concerning the makeup of the formula (R 554A).

Counsel for petitioner pointed out (R 575A):

> "... that the purpose of taking the deposition was to determine what trade secrets the plaintiff claims it disclosed to the defendant."

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[8] Woodburn also said that the formula "now" used by Davidson has an additional ingredient. (R 550-1A).

Counsel for respondent Davidson asserted that this inquiry as to what trade secrets Davidson claimed to own, which it claimed to have disclosed to petitioner, was irrelevant because—

> "... we do not think it is necessary for a disposition of this case as we have moved for a separate trial of the contractual issue ..." (R 572-3A)

Petitioner thereupon filed a motion to compel answers to questions propounded to Casey and Woodburn (R 62A) and a memorandum in support thereof (R 71A), stating:

> "Defendant has previously filed in this Court a memorandum addressed to the substantive law regarding enforceability of covenants not to compete and the propriety of inquiring into trade secrets on discovery ... If he did not obtain trade secrets or confidential information from plaintiff the alleged covenant not to compete is invalid. In order to determine the validity of the covenant we must determine:
>
> (1) What it is that plaintiff claims it communicated to defendant which constitutes confidential information or trade secret.
>
> (2) Are the things that plaintiff claims are trade secrets or confidential information, really trade secrets or confidential information.
>
> To make these two determinations defendant must have answer to the questions which it has propounded to the Messrs. Casey and Woodburn." (R-71-72A)

Respondent filed a motion for a protective order (R 62A) and a motion for a separate trial on Count 1 only (R 59A).

In its motion for separate trial on Count 1 only, petitioner stated:

> "... the agreement of the defendant Dieter Hulsenbusch of November 5, 1962 and ... a separate trial involving findings of fact as to the meaning of the said agreement and conclusions of law *as to its*

> *validity and enforceability*[9] will finally dispose of the case at bar in a brief manner, convenient both to the Court and the parties.
>
> "It is to be noted also that if a full trial is held in the case at bar including the entire extent of plaintiff's confidential technical information which is known to the defendant Dieter Hulsenbusch, such a trial would probably take more than a week.
>
> "Accordingly, it is believed that . . . a decision on said Count [1] will finally dispose of the case . . ."[10] (R 59-60A)

In its motion for a protective order to bar answers to petitioner's queries as to what trade secret respondent Davidson claimed to own and to have disclosed to petitioner, respondent asserted (R 62-63A):

> ". . . plaintiff . . . moves . . . for an order specifically providing the *secret processes,* developments or research owned and possessed by plaintiff and its employees, *need not be disclosed* until further ordered by the Court."
>
> "Plaintiff appreciates the fact that, at some stage in these proceedings, if a trial becomes necessary involving a specific display of plaintiff's confidential technical information, it may be necessary to open up the same to an inspection by the defendant, but plaintiff respectfully urges the Court at this stage of the proceeding to order that the same be kept in camera, and that *defendant be precluded from inquiring into the same on discovery at this time.*"

Respondent here and at all times contended that the issue of "possession" and "disclosure" of trade secrets by

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[9] Emphasis furnished unless otherwise indicated.

[10] Notwithstanding respondent's representation, respondent still seeks damages against petitioner and after appeal to the Circuit Court of Appeals filed an action against Sheller Manufacturing Company on essentially the same grounds, also seeking damages. See infra, p. 22.

Davidson were not necessary to determine the "validity and enforceability" of the covenant not to work for a competitor in the United States for two (2) years under Count 1.

Respondent admitted that such proof and determination would be required in a "full trial" on the remaining Counts 2 to 5, and asserted that a disposition by injunction on Count 1 would "finally dispose of the case."

In respondent's memorandum in support of those motions, respondent asserted:

> "The principal questions for the Court to decide now are (1) Whether or not to order *separate trial* of Count 1 and thereby *to obviate the present need to inquire into the nature and scope of Davidson's confidential technical information* . . . qualifying as *trade secrets.*"
>
> "On the other hand, it will be apparent to the Court that, the question of *whether or not any given item on this list is or is not in fact a proprietary item not known generally to Davidson's competitors,* will in each instance present a complicated technical issue of fact. Since as many as thirty or forty such issues *will have to be decided in a trial of all issues* in the case at bar, a complex and lengthy trial would be in store . . . "[11] (R 76-7A)

---

[11] This motion was granted and petitioner was precluded from proving whether Davidson's alleged "technical information qualify as a trade secret" or was "known generally to Davidson's competitors." There was no proof at the trial or findings of the District Court on the subject whatsoever.

Notwithstanding, the Circuit Court of Appeals concluded (344 F 2d at 735):

> "We think the evidence justified the *finding* that *plaintiff's processes as a whole utilized trade secrets not generally known or used in the industry which enabled it to gain an advantage over its competitors.*"

> "By contrast, a trial of Count 1 in the case at bar will require only an interpretation of the November 5, 1962 agreement between the parties, and a decision as to its *enforceability* . . ." (R 77A)

On July 9, 1964, the District Court granted respondent's motions and ordered a separate trial on Count 1[11] to be held on July 20, 1964 (R 87A) and denied petitioner's motion to compel answer as to what, if any, trade secrets respondent claimed it had and disclosed to petitioner (R 87A).

At the opening of trial the District Court (contrary to controlling State law previously cited to him by petitioner in his Memorandum of Law filed prior to respondent's above motion), made it clear that it deemed that the question of possession by respondent and disclosure to petitioner of trade secrets was not essential nor relevant to a determination of Count 1, (the only Count then at issue at the trial)[12] under which respondent alleged (R 10A):

> "Count 1.
>
> "By working for the said Sheller Company, defendant breached the November 5, 1962 agreement."
>
> "THE COURT: *You are not going into any of the matters of the secrecy.* The Court has ruled the only issue I am going to try here is the matter of whether or not there is a breach of agreement. And that's what you will be restricted to, anything that's material to that . . . . *we are not going to go into the matter of what the secrets were.* I don't want to take that up. I want to determine the *validity* of this thing before we go any further, and whether or not there has been a *breach.*" (R 238-9A)

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[12] Counts 2 to 5 of respondent's Complaint alleged that petitioner was "employing", "divulging" and "turning over" (or "threatened" to do so) trade secrets. However, these questions and issues were severed and "withheld [from trial] pending disposition of the trial on Count 1," pursuant to respondent's motion, and separate trial was directed as to Count 1 only (R 87A). (See F.N. 2, supra, p. 5)

Accordingly, by virtue of the District Court's order on discovery and ruling at the trial, petitioner was prevented from inquiring into, proffering proof, cross-examining or trying the issues relating to the question of whether or not respondent owned any trade secrets and whether or not they were communicated to petitioner. To illustrate:

(1) On direct examination of petitioner

> "Q. Would you describe generically, and not in detail, the steps in the production of a crash pad?
>
> "MR. RUSSELL: . . . is he going to say things that are possibly trade secrets or in the confidential information area? I think this is totally irrelevant to the issue . . .
>
> "Q. (by Mr. Vanker) And by generically I mean the processes, equipment, whether it differs in slight detail or otherwise, *that must be used by everyone who makes the crash pads.*
>
> "THE COURT: The witness is admonished not to speak of any secret processes of Davidson's that he might know." (R 369A)

(2) When petitioner was being examined about the details of the perforated crash pad grille mentioned in respondent's Complaint:

> "MR. RUSSELL: If Your Honor please. I would not want any further details of that die to be discussed.
>
> "MR. VANKER: . . . Your Honor, now I think I would like to ask the witness to give the details of the die, because I don't understand that Mr. Russell's client has ever produced this thing or that they have any proprietary right.

"THE COURT: . . . this is not going to be a contest to find out each others secrets . . .[13]

". . . it hasn't anything to do with the issue I am trying here today . . . I don't want to get into that proposition." (R 375A)

(3) Counsel for petitioner asked the District Court to examine materials deposited with the Court which consisted of Davidson's alleged trade secrets and material deposited by Sheller describing its foam formulas and crash pad processing techniques to determine if Davidson possessed trade secrets not generally known to others in the industry (R 422-3A). The Court refused, ruling:

"THE COURT: *The Court does not consider that it is essential to the decision of the Court that I examine any of the secret material deposited* with this Court and I am not going to do so." (R 424A)

On July 21, 1964, the District Court dictated its findings and injunction from the bench (R 431-3A), which were embodied in a formal judgment entered on July 30, 1964 (R 102A). The Court found that petitioner entered into an employment agreement on November 5, 1962, pursuant to which petitioner agreed not to work for competitors of respondent in the United States for two (2) years after

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[13] If, as petitioner submits, the controlling state law makes invalid as contrary to public policy a no compete clause in an employment contract unless the employer owns and discloses to the employee trade secrets not generally known to the industry, then respondent who institutes suit is obliged to prove these essential elements.

Moreover, in this and other claimed trade secret cases, a hearing *in camera*, a protective order and injunction against disclosure to others by petitioner or his agents or attorneys would protect respondent (if the Court upon proof and after a full and fair hearing in accordance with due process determined that what respondent claimed to own and disclosed to petitioner, were in fact and law trade secrets). This is usual practice in unfair trade cases and respondent, who instituted such suit, should not be excused from proving essential elements of his cause of action and petitioner be found liable without such proof, 62 A.L.R. 2d 809.

leaving its employ on July 21, 1963, and that petitioner breached the agreement by taking employment with Sheller on April 20, 1964. The Court further concluded that the contract was valid and enforceable, stating:

> "4. The Court has considered the following factors in connection with the nature of defendant's employment as a consultant: From the evidence before the Court, it is clear that in such a position a consultant must have free access to the *information* in the possession of his employer to be effective. The Court has considered the fact that the consultant's work is generally of short duration, as it was in the present instance. It is obvious from the record in the case that the loyalties in such a situation can be short-lived, as the testimony by the defendant in this case clearly demonstrates. It seems to the Court that under the circumstances some protection is necessary for the former employer, the plaintiff, herein . . ." (R 103-4A)

The District Court made no finding (nor could there have been on the record) that the "information in possession of . . . employer" (respondent) constituted trade secrets not generally known in the industry or that petitioner's "access to the information" was in anywise access to trade secrets or exclusive property of respondent.

Nothwithstanding, the permanent injunction of the District Court enjoined petitioner from "communicating or disclosing . . . *any* technical information" to anybody "in the United States . . . in direct competition with plaintiff [Respondent] in the automotive business." (R 105A) The injunction did not limit petitioner only from communicating or disclosing "information" disclosed to him by respondent, but enjoned him from communicating or disclosing "*any* technical information," knowledge or skill which peti-

tioner had obtained, acquired or developed from years of experience and training himself or from others (before he ever entered into the six month consulting contract with Davidson). In other words, petitioner was enjoined from obtaining gainful employment in the United States for two (2) years and from utilizing the knowledge and skills in which, by years of endeavor and experience, he had become most proficient, even though Davidson had failed to prove exclusive property therein as a trade secret or secrets.

The Circuit Court of Appeals affirmed the judgment of the District Court upon the erroneous determination that the District Court had made findings that (i) respondent possessed trade secrets, (ii) confidentially disclosed them to petitioner and (iii) petitioner has violated this confidence, whereas the District Court expressly excluded those issues from the case.

Petitioner appealed to the United States Court of Appeals for the Eighth Circuit upon the ground that the covenant in petitioner's employment contract not to work for a competitor in the United States for two (2) years was contrary to public policy of the State and, under controlling State law, was void and unenforecable, absent proof that respondent possessed and disclosed to petitioner trade secrets owned by it not generally known or used in the industry.

The Court of Appeals affirmed the District Court (1) applying the correct and controlling rule of State law asserted by petitioner (but rejected by the District Court) but (2) erroneously concluding that the District Court had found that petitioner had acquired from respondent trade secrets not generally known or used in the industry, when in fact the District Court had refused to ascertain whether

or not respondent possessed and disclosed trade secrets to petitioner and refused to permit petitioner to make discovery or elicit proof in respect thereto.

The Circuit Court of Appeals (344 F. 2d 730) on April 21, 1965, held:

> "The core of defendant's appeal is his contention that while employed by plaintiff he learned none of its asserted trade secrets nor was he entrusted with any confidential information dealing with plaintiff's processes for the manufacture of crash pads . . ." (p. 734)
>
> "The issues of possession by plaintiff of trade secrets, confidential disclosure to defendant, and violation by him of that confidence or breach of his contract are largely factual . . . We are satisfied that the District Court's findings in the affirmative on these issues are amply supported by the record of evidence . . .
>
> "We think the evidence justified the finding that plaintiff's processes as a whole utilized trade secrets not generally known or used in the industry . . ." (p. 734-5)

Moreover, the Circuit Court of Appeals in its decision decided the issues raised by Counts 2 through 5 of the Complaint, (which upon respondent's motion for separate trial of Count 1) by order of the District Court were expressly excluded from the trial below (footnote 11, supra, p. 15). The excluded counts alleged that petitioner, in violation of his fiduciary duty, was "employing" "divulging" and "turning over" (or "threatened" to do so) trade secrets of respondent. The Circuit Court of Appeals found in favor of respondent on these issues (344 F. 2d 735-6) when they had been excluded from the trial. Petitioner was never afforded an opportunity to be heard on these issues. They were not before the District Court. Notwithstanding, peti-

tioner was found to be liable thereupon by Circuit Court of Appeals without a hearing or a trial thereupon.

Pending in the District Court is (a) the issue of damages for breach of the covenant (Count 1) and (b) Counts 2-5 of respondent's complaint and damages thereupon. These depend upon proof of trade secrets which have been found to exist by the Court of Appeals even though the issues were never tried.

Also pending in the District Court is an action[14] by respondent against Sheller Manufacturing Corporation which depends on proof that respondent possessed trade secrets, communicated the same to petitioner and that petitioner divulged the same to Sheller. The Circuit Court of Appeals has reached conclusions relating thereto without any proof or trial of these issues.

The Petition for Rehearing

Petitioner on May 6, 1965 filed a Petition for Rehearing on the ground that:

> "This Court has overlooked that the District Court made no findings that appellee possessed trade secrets, communicated trade secrets to appellant or that appellant communicated the same to others and has overlooked the fact that the Court below refused to hear the issues of "Trade Secrets" or "Secrecy," and in rendering its decision has deprived appellant of a full and fair trial, of his right to present all defenses and cross examine witnesses against him contrary to the guarantees of the Constitution of the United States, Amendment V."

Petitioner's application for rehearing by the Circuit Court of Appeals was denied on June 21, 1965.

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[14] This Court may take judicial notice of these proceedings pending in the District Court. *Brown* v. *Board of Education*, 344 U.S. 1, 3 (1952).

REASONS FOR GRANTING WRIT

I.

Petitioner has been denied his basic right to obtain gainful employment with a competitor of respondent employer and such employer, without a patentable process or trade secret, has been permitted an unlawful restraint of trade contrary to controlling law and public policy of the State (Erie v. Tompkins) and virtually every state throughout the United States.

As a matter of sound and overriding public policy of virtually every state throughout the United States it is unlawful for an employer to restrain competition by restrictions in an employment contract preventing such employees from obtaining gainful employment with a competitor—unless and only if it be clearly established that such employer has developed and uses trade secrets not generally known or used in the industry, which he has disclosed to such employee in confidence. (9 ALR 1456; 20 ALR 861, 29 ALR 1331; 52 ALR 1362; 67 ALR 1002; 98 ALR 963).

So basic is this principle which safeguards the rights of employees to use their general knowledge, skills and experience in seeking gainful employment, that we have been unable to find any state jurisdicition which has not adopted the foregoing rule of law as its public policy. This is the law of Iowa (where petitioner was working for a competitor of respondent Davidson until enjoined) and of New Hampshire (where respondent has its principal place of business and the contract containing the restrictive covenant was executed). The Circuit Court of Appeals in the case at bar so recognized. 344 Fd at p. 734 (citing the controlling decisions in both Iowa and New Hampshire).

Covenants not to compete in employment contracts are "strictly construed" and are not viewed with the same "indulgence" as those incident to the sale of a business. *Brecher* v. *Brown* 235 Iowa 627, 17 NW 2d 377 (1945). Such covenants are against "public policy" *(id)* where clearly not necessary to prevent the pirating of the employer's exclusive property. *Mutual Loan Co.* v. *Pierce,* 245 Iowa 1051, 65 NW 2d 405 (1954). To same effect, see *Dunfey Realty Co.* v. *Enwright,* 101 N. H. 195; 138 A. 2d 80, 83 (1957).

The mere recitation in an employment contract that the employment involves the disclosure of trade secrets is not enough, in and of itself, absent proof, to sustain the validity of a covenant not to compete. The employer *must actually prove that he owned bona fide trade secrets and disclosed them to the employee. Absent such proof contract recitations between the employer and employee to the effect that the employer possesses trade secrets and communicated the same to the employee will not save the covenant from being contrary to public policy and void. Mutual Loan Co.* v. *Pierce, supra,* and *Briggs* v. *Boston,* 15 F Supp 763 (N.D. Iowa, 1936.)[15]

The Iowa Supreme Court relies upon the Restatement of the Law, Contracts, on the subject, Sections 515-6.

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[15] The judgment below did not merely enjoin "the use of trade secrets" claimed by respondent. Petitioner was subjected to a sweeping injunction "from communicating . . . *any* technical information," whether or not such information be a trade secret owned by respondent (and there was no proof permitted on the subject).

Thus, by rejecting the controlling public policy and law of the State, the Court was led into the sweeping injunction against petitioner obtaining gainful employment in his most proficient field of endeavor. Most Courts merely limit injunction relief to disclosure of trade secrets, where there is clear proof that the employer owns trade secrets entitled to protection by the Court of Equity.

Brecher v. *Brown, supra,* at p. 379; *Federated Mutual Implement Co.* v. *Erickson,* 252 Iowa 1208; 110 N.W. 2d 264, 266 (1954). The comment on clause (f) of Section 516 of the Restatement provides:

> "A promise of a former employee will not ordinarily be enforced so as to preclude him from exercising skill and knowledge acquired in his employer's business, even if the competition is injurious to the latter, *except so far as to prevent the use of trade secrets . . .*"

This Court has long recognized that "the right to hold specific private employment and to follow a chosen profession free from unreasonable governmental interference comes within the 'liberty' and 'property' concepts of the Fifth Amendment." *Green* v. *McElroy,* 360 U.S. 474, 492 (1959). See also *Schware* v. *Board of Bar Examiners,* 353 U.S. 232 (1957); *Wieman* v. *Updegraff,* 344 U.S. 183 (1952); *Dent* v. *West Virginia,* 129 U.S. 114 (1889).

The Court below has unreasonably deprived the petitioner of the right to engage in his chosen occupation in which he has developed the most knowledge, skill and experience. The restraint placed upon petitioner's freedom to engage in his chosen occupation here transcends any "rational connection" (*Schware* v. *Board of Examiners,* supra, p. 239) to the legally protectable rights of respondent.

Respondent did not prove that it owned or developed any trade secrets which it communicated to petitioner nor did the District Court consider the question or permit petitioner to inquire or offer proof thereon. This Court has recently made it manifest that it will not sanction monopolies or restraints of trade by use of the "law of unfair competition" to prohibit others from using an unpatentable device or process as repugnant to the Federal Patent Laws

and policy. This was held to be "too great an encroachment on the Federal patent system to be tolerated." *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 US 225 (1964); *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

Certainly, the restriction of the use or communication of a process or device, *which is not a trade secret,* nor patentable, to support a monopoly or restraint of trade in favor of an employer who, by provision in an employment contract, seeks to prevent an employee (petitioner) from his right to obtain gainful employment with a competitor in such employee's chosen field of endeavor, in which, by experience and skill, he is most qualified, also is "too great an encroachment . . . to be tolerated."

The judgment below must necessarily be based upon the record made in the Federal District Court. Based upon that record, the judgment of the District Court below, affirmed by the Circuit Court of Appeals, is clearly contrary to controlling state law and basic public policy. Since most states in this country uphold this policy (and none have been found to the contrary) it is important that this Court not permit such state law and far-reaching public policy to be disregarded by the Federal Courts. *Erie* v. *Tompkins*, 304 U.S. 64 (1938).[16]

It is no answer that the Circuit Court of Appeals recognized the validity of the controlling state law and policy, as it did (344 F. 2d 730, 734-5), where, as here, it affirmed the judgment of the District Court (which refused to follow such state law) upon erroneous assumption that the

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[16] The public policy of the States must be followed by Federal Courts under *Erie* v. *Tompkins, supra;* 21 ALR 2d 247. This also specifically applies to covenants not to compete. *Matthews Conveyor Co.* v. *Palmer Bee Co.*, 135 F 2d 73 (6th Cir. 1943); *May* v. *Mulligan*, 117 F 2d 73 (6th Cir. 1938).

District Court had made findings of "possession by respondent" of "trade secrets," "not generally known or used in the industry," "confidential disclosure to [petitioner]" and "divulging" the same to others by petitioner, when, in fact, the District Court made no such findings and refused to ascertain or to permit petitioner to inquire about or ascertain what trade secrets respondent claimed to own or to prove that respondent neither owned nor communicated to petitioner any trade secrets not generally known or used in the industry, or that petitioner did not divulge any alleged trade secrets of respondent to others. To permit such judgment to stand upon such a basis is a clear denial to petitioner of due process of law guaranteed by Amendment V of the Constitution of the United States.

II.

Where the District Court denied petitioner the opportunity to prove that respondent did not possess trade secrets not generally known in the industry, incorrectly concluding that such proof was not relevant to determine the validity of a covenant not to compete, it is a denial of basic due process for the Circuit Court of Appeals to affirm the judgment below by adopting the correct rule of law, (rejected by the District Court), but erroneously assuming that the District Court made "findings" on essential "issues," when the District Court made no such findings and refused to try such issues.

This Court has been most vigilant in safeguarding to the litigant his fundamental rights under the Fifth Amendment to "a full and fair trial".[17] Due process is denied

[17] Due process and "fair trial" under the Constitution is also guaranteed to a "person" who is a non-citizen (*Galvan* v. *Press*, 347 U.S. 522 (1954) and petitioner, as a West German, is entitled to the protection thereof.

where, as here, petitioner has been denied a judicial determination based solely upon issues submitted and evidence adduced thereupon at the trial, the "opportunity to present every available defense"; and the "right of cross-examination of witnesses."

Here, the only issue before the District Court was the "validity" and "enforceability" of petitioner's covenant not to work for a competitor of respondent Davidson in the United States for two years. Petitioner asserted that the covenant was void and contrary to the public policy under controlling state law, because respondent neither owned nor communicated trade secrets. The District Court refused to consider this defense, refused to ascertain whether or not respondent owned trade secrets and refused to permit petitioner to inquire about or adduce proof in respect thereto. (supra pp 12-22) The Judgment below sustained the validity and enforceability of this covenant in restraint of trade, absent proof of trade secrets or the opportunity to offer proof relating thereto.

The Circuit Court of Appeals affirmed the judgment below. It followed the correct rule of law (urged by petitioner as a defense, but rejected by the District Court) based upon an erroneous assumption that the District Court had considered the issues and had made findings thereupon—when in fact the District Court made no such findings and refused to permit proof or trial on those issues. Affirming the judgment below under such circumstances is a clear denial of basic due process.

Where the issues of fact essential to a determination of liability under a correct rule of law (rejected by the Trial Court), are not tried, but are expressly excluded by the Trial Court below, it is a clear denial of basic due process

for an appellate court to affirm the judgment predicated upon an assumption that the issues essential to such rule of law were tried and that findings were made thereon by the trial court.

In *Lutcher & Moore Lumber Co.* v. *Knight*, 217 U.S. 257 (1909) this Court reversed the Court of Appeals for the Fifth Circuit which affirmed the lower court on a theory or rule of law not in issue before the trial court or between the litigants (but which was injected by the Court of Appeals for the first time), saying:

> "... we are of the opinion that it inevitably results that the effect of the action of the circuit court of appeals *was substantially to deny* to the plaintiffs in error in that court, *petitioner* here, *their day in court*, in other words, was equivalent to condemning them without a day in court." *id*, 559[18]

Cf. *Securities and Exchange Commission* v. *Chenery Corp.*, 318 U.S. 80, 88 (1942). To the same effect as *Lutcher & Moore Lumber Co.* v. *Knight*, 217 U.S. 257 (1909); See *Building Trades Council* v. *NLRB*, D.C. Cir. decided July 28, 1965 (not otherwise reported but printed in Appendix C hereto p. 25A), wherein it is said:

> ". .-. This is a curious ratiocination when one pauses to reflect that these 'defenses' relate to a charge that was not made . . . We think petitioners

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[18] The appellate courts of the various states have recognized that where a decision of a trial court is based upon an erroneous rule of law and the issues raised by the correct rule of law were not tried, the appellate court can only reverse and cannot affirm. In such a case the usual rule that allows an appellate court to correct a mistake of law on issues actually litigated cannot be invoked. As Justice Cardoza, speaking for the Court said, in such a case " . . . the Appellate Division should have reversed the judgment and sent the matter back for a hearing upon the disputed issues. There was nothing before it to justify the judgment." *Fox Film Corporation* v. *Hirschman*, 136 NE 238 (NY, 1922). See also *State* v. *Stone*, 271 SW 2d 741, (Tex Civ App 1954); *Kyne* v. *Kyne*, 140 P 2d 886 (Cal App 1943).

> were entitled to assume that they had only to defend against a charge that their illegal object was to secure illegal contracts. They were found guilty by the Board of entertaining an entirely different object... Lawyers customarily try cases by reference to the issues framed in the pleadings in advance of hearing, and not in anticipation of new issues which possibly may be announced by the court in its opinion."

See also: *Consolidated Edison Co.* v. *National L. R. Bd.*, 305 U.S., 197, 234-5 (1938); *National Labor Relations Board* v. *Johnson*, 322 F2d 216, 219 (6th Cir, 1963).

In the case at bar the action of the courts below denied petitioner a full and fair hearing, deprived him of his right to present a valid and complete defense. The trial court by refusing to permit petitioner to inquire about trade secrets claimed by the respondent denied petitioner the right to be apprised of his adversary's essential claim and to offer evidence thereon, all contrary to the guarantees of due process. *American Surety Company* v. *Baldwin*, 287 U.S. 156 (1932); *Morgan* v. *United States*, 304 U.S. 1, 18-19 (1938).

In its opinion (p. 735) the Circuit Court of Appeals concluded that petitioner was "observed" by respondent's employees taking notes and "having in his possession" respondent's confidential data (claimed to be trade secrets). The only place such statements appear is in four affidavits which were admitted at the trial over petitioner's objection that petitioner was being deprived of his fundamental right to cross-examine the affiants (R 181, 237A). *An affidavit cannot be cross-examined.* The admission into evidence of these affidavits and reliance thereupon was a further indefensible denial of due process. *L. B. Wilson, Inc.* v. *Federal Trade Commission*, 170 F 2d 193, 805 (C.A.D.C. 1948); *Ex Parte Jackson* 263 Fed 110 (D.C. Mont, 1920).

Moreover, affidavits that petitioner looked at a book containing "data" in and of itself does not permit of a conclusion that such "data" was a trade secret. Petitioner was foreclosed by the trial court from inquiry into the subject of respondents' claimed trade secrets in respect to such "data".

A process, design or procedure" generally known or used in the industry" is not entitled to the status of a trade secret and the Circuit Court of Appeals so held (p. 734-5). Likewise, prior art and general use and knowledge in the industry precludes the granting of a patent monopoly under the Federal Patent System, and even when a patent has issued it is a defense to the validity in an action for infringement. The issue of trade secrets, as in patent cases, is an essential issue to be fully tried. An exclusive proprietary ownership must be established before a claimed owner of a trade secret will be entitled to protection by a court. 35 USC 282

How, in the face of the trial court's refusal to permit petitioner to inquire into the subject, can the Circuit Court of Appeals conclude (p. 735)

> "... that plaintiff's processes as a whole utilized trade secrets not generally known or used in the industry..."?

In effect, the Circuit Court of Appeals has held that respondent is the exclusive owner of a trade secret "not generally known or used in the industry" when in fact petitioner has been denied the opportunity to inquire into the subject of what respondent claimed its trade secrets were and therefore (without such information) petitioner could not show and was denied the opportunity of showing that such claimed trade secrets were common knowledge and in general use in the industry.

Conclusion

Significant and substantial principles are here at stake. The District Court disregarded an important and predominant rule of state law and public policy which prohibits restraints of trade imposed by an employer upon an employee (proscribing gainful employment with a competitor in the employee's most proficient field of endeavor) where there is no proof that the employer has an exclusive property interest in trade secrets to protect and safeguard. This principle of law is the law of the controlling state here (as it is in virtually every state of the Union) and it is contrary to constitutional principles for a Federal District Court to disregard it (*Erie* v. *Tompkins*, supra).

The mere recognition of the correct principle of controlling state law by the Circuit Court of Appeals cannot justify the affirmance of the Judgment of the District Court, if, as here, it is predicated upon a clear denial of due process of law. Petitioner has been denied the opportunity and right to a trial of the issues essential to correct and controlling rule of law on Count 1. The injustice has been compounded by the Circuit Court of Appeals purporting to decide not only issues of fact not tried below (on Count 1) but by purporting to determine the questions still pending below (on Counts 2 to 5) without affording petitioner the right to be heard thereon.

Such a denial of due process is repugnant to the American concept of jurisprudence and fair play inherent in the constitutional guarantee of due process, which this Court has so eloquently and steadfastly safeguarded.

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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September 16, 1965,

APPENDIX A

Amendment V to the Constitution of the United States

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

APPENDIX B

Dieter HULSENBUSCH, Appellant,

v.

The DAVIDSON RUBBER COMPANY, Inc., Appellee.

No. 17785

United States Court of Appeals

Eighth Circuit.

April 21, 1965.

Before VAN OOSTERMOUT, BLACKMUN and MEHAFFY, Circuit Judges.

MEHAFFY, Circuit Judge. **344 F 2d 731**

Defendant, Dieter Hulsenbusch, a citizen of West Germany, has appealed a decision of the District Court enjoining him from further breach of the employment contract he executed with his former employer and plaintiff below, The Davidson Rubber Company, Inc. of Dover, New Hampshire.

The Davidson Company is presently engaged in the manufacture primarily of interior automotive parts such as padded dashboards (crash pads), arm rests and sunvisors. Hulseubusch's business relationship with Davidson had its beginning in 1958 while he was employed as a technical consultant with the Happich Company of West Germany which also manufactures interior automotive parts for seven German-made automobiles.

During a visit in that year to several crash pad producers in the United States, Hulsenbusch and his employer, Dr. Otto Happich, made contact with officials of Davidson in order to learn their process for manufacture of a certain type of "foamed-in-place" arm rest with which they were impressed and wished to duplicate for their own customers.

As a result of this meeting, Davidson divulged its tech-

niques for the production of arm rests to Hulsenbusch. Thereafter, Davidson issued a license for consideration to the Happich Company covering the following subject matter:

> "[M]olded articles employing molded urethane foam alone or such foam and vinyl combinations, including developments in the articles themselves, apparatus for producing them, formulations, materials handling techniques, and the like. * * *"

During the interim Hulsenbusch agreed to keep this information confidential. He ultimately signed an employment agreement with Happich in which he agreed for the duration of his employment and two years after separation (1) not to disclose information entrusted to him regarding fomulas, production procedures, and special machinery

used in the mold making and plastics processing of his employer and (2) not to work for himself or a competitor of Happich (other than a firm under Davidson's control) which produces automotive items of the same type as covered by the Davidson-Happich license.[1]

On one occasion during this period of his employment with Happich, Hulsenbusch informed a representative of Davidson by letter that he had declined permission to a competitor of Davidson to see or discuss Happich's work with respect to the production of arm rests or crash pads.

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[1] "2. *Coverage of Prohibition of Competition and Bond of Secrecy*
"Mr. Hulsenbusch obligates himself, for a period of two years after severance of employment, not to work for an enterprise that produces or deals in the following items for the automotive branch:
"1. Parts made of PVC-Plastisol, produced by the rotary method, the injection-molding method or the swivel method.
"2. Parts as above, foamed with polyurethane foam.
"3. Parts as above with reinforcing or protection elements, in which the said elements are foamed in.
"4. Parts as above, in which the shell is made of molded thermoplastic foil."

Hulsenbusch indicated that his basis for refusal was belief that their license with Davidson covered patents and confidential "know-how" of Davidson on which these two areas of Happich's production depended.

Subsequently, Davidson decided to enter the crash pad market in the United States. After learning of Hulsenbusch's intention to leave Happich to take a job with a similar manufacturer in Italy, Davidson's president, E. Paul Casey, Hulsenbusch in November of 1962 as a short-term technical consultant and project leader of their planned expansion into the crash pad field. Defendant was to be paid $1,000.00 per month, a bonus, and certain fringe benefits while residing in the United States. Casey confirmed this oral employment agreement by written instrument dated November 5, 1962. In this communique, which Hulsenbusch later signed in New Hampshire before assuming his duties, Casey specified:

> "3. It is my understanding that you have a contractual obligation to Happich which extends for approximately 2 years in which you agree not to work for competitors of his in Europe and that your proposed employment contract with Gallino will contain a similar provision for Italy. *We expect you to observe the same kind of restrictions for the U. S.*
>
> "4. It is also agreed, in line with the customary ethical practices of consultants, that any new developments or inventions resulting from your work with us will become the property of Davidson Rubber Company." (Emphasis supplied.)

Thereafter, Hulsenbusch, working in close association with Davidson's research director, chief engineer and their technical staffs, helped in the successful six-month development of a marketable crash pad.

In one year of production, Davidson, by 1964, had acquired crash pad business with General Motors, Chrysler and Ford amounting to over $5,000,000.00 worth of sales. Included in this figure were substantial orders awarded Davidson after its leading competitor, the Sheller Manufacturing Company of Keokuk, Iowa, was unable to fulfill some of its contractual commitments to the automotive industry.

When Davidson became established as a leading crash pad producer, Hulsenbusch's job was complete. He left Davidson's employ on July 31, 1963 and took a consultancy position with a French company which at that time manufactured certain interior automotive parts other than crash pads.

Hoping to recapture market advantage, officials of Sheller contacted Hulsenbusch, whose expertise they had heard put Davidson in the crash pad business. On March 31, 1964, Hulsenbusch was offered and accepted employment with

Sheller as a consultant on crash pads at a salary of $34,000.00 for six months' work.

When President Casey of Davidson finally learned on May 14, 1964 of Hulsenbusch's employment with Sheller, he immediately telephoned the president of Sheller, as well as Hulsenbusch. He informed both that Hulsenbusch's ement contract with Davidson precluded his consulting for a competitor such as Sheller in the making of crash pads for two years following separation with Davidson. Sheller and Hulsenbusch disagreed. Whereupon Davidson filed the instant bill in equity in federal district court based on diversity jurisdiction seeking immediate injunctive relief which was awarded below.

After a trial on the merits, the District Court made per-

manent its temporary injunction restraining the defendant from continuing in the employ of, or disclosing any technical information to Sheller, its representatives, or any other company in the United States in direct competition with plaintiff in the automotive industry until August 1, 1965. A motion for an order staying the injunction pending appeal was denied.

Defendant first attacks the jurisdiction of the District Court on the ground that the amount in controversy does not exceed $10,000.00, exclusive of interest and costs, as required under 28 U.S.C.A. § 1332(a). Defendant maintains that plaintiff's president admitted that as of the time of trial plaintiff had suffered no actual monetary damage, and although crash pad contracts for 1965 had already been awarded, plaintiff failed to show that it was incapable of carrying on its business as in the past or that freedom from defendant's employment with Sheller is worth $10,000.00. On the other hand, plaintiff's president Casey testified that at least $2,000,000.00 worth of their gross business had been acquired as a result of trade secrets developed during defendant's tenure. He was of the opinion that if defendant divulged this proprietary information, to which he had access, to Sheller, plaintiff stood to lose anticipated profits ranging from $600,000.00 to $800,000.00.

Ordinarily, the presence of jurisdictional amount rests upon the plaintiff's good faith allegation in its complaint or bill in equity. But where appropriately controverted by the defendant, the plaintiff has the burden to support its averment by competent and preponderant proof. *KVOS, Inc.* v. *Associated Press,* 299 U.S. 269, 57 S.Ct. 187, 81 L.Ed. 183 (1936); *Ringsby Truck Lines, Inc.* v. *Beardsley,* 331 F.2d 14 (8th Cir. 1964) *Industrial Electronics Corp.* v. *Cline,* 330 F.2d 480 (3rd Cir. 1964).

In an equitable action for an injunction against irreparable injury, the amount in controversy is determined by the value of the property right sought to be protected against the alleged interference. *Federal Mutual Implement & Hardware Ins. Co.* v. *Steinheider,* 268 F.2d 734 (8 Cir. 1959); *Beneficial Industrial Loan Corp.* v. *Kline,* 132 F. 2d 520 (8 Cir. 1942); *Burndy Corp.* vs. *Cahill,* 196 F.Supp. 619 (D. Minn.1961). Translated into facts of the instant case, that right is definable as plaintiff's alleged entitlement under the employment contract to be free from the defendant's disclosure of its specified proprietary trade secrets to a competitor in the United States for two years following severance of the employment relationship. While such a right is not susceptible of exact evaluation, the weight of authority in trademark-tradename and unfair competition suits generally permits evidence of potential, as well as past, damages in arriving at the dollar value of the subject matter of the lawsuit. *Hanson* v. *Triangle Publications,* 163 F.2d 74 (8 Cir. 1947); *Ury* v. *Mazer Cigar Mfg. Co.,* 253 F. 551 (8 Cir. 1918); *Moline Plow Co.* v. *Omaha Iron Store Co.,* 235 F. 519 (8 Cir. 1916); *Beneficial Industrial Loan Corp.* v. *Kline,* supra 132 F.2d at 525; *Burndy Corp.* v. *Cahill,* supra; 54 Am.Jur., United States Courts, §§ 123-124 (1945). [See also 1 Moore's Federal

Practice, ¶0.96 [2] (2nd ed. 1964) approving consideration of prospective damages in computing jurisdictional amount in an action for an injunction, generally.] We see no reason to apply a more stringent criterion in determining the jurisdictional amount in an unfair competition suit based on disclosure of trade secrets in breach of contract.

The evidence is undisputed that plaintiff was awarded, as against its competitors, substantial contracts for crash

pads which it successfully fulfilled and derived profits therefrom far in excess of $10,000.00 following the development stage when defendant was employed. It has since acquired an even larger and more lucrative share of the crash pad business allegedly attributable to technical innovations made during this prior period. Therefore, if plaintiff is correct in its allegation that these innovations constituted exclusive, proprietary trade secrets of which the defendant was aware, then we have no doubt that the value of its right to be safeguarded against disclosure of this information by defendant to its competitors is worth exceedingly more than $10,000.00.

[3] Moreover, from the viewpoint of the defendant, his disputed right to work for a competitor of plaintiff within the United States during the next two years is valued at $34,000.00 for only six months' work under his contract with Sheller which also would far exceed the requisite jurisdictional amount. Thus, we do not believe the District Court erred in finding sufficient evidence of controverted amount to vest it with jurisdiction.

The core of defendant's appeal is his contention that while employed by plaintiff he learned none of its asserted trade secrets nor was he entrusted with any confidential information dealing with plaintiff's processes for the manufacture of crash pads. Defendant therefore submits that he did not breach the restrictive covenant of his non-competition agreement with plaintiff by accepting a consultancy position with Sheller to improve its crash pads because the job would utilize only his general experience and skill in areas of crash pad production openly known to the industry.

We note that the parties regarded the substantive issues governed by either the law or Iowa, the forum, or that of

New Hampshire where the Davidson employment agreement was executed. We see no need to dwell on this conflicts of law question as both jurisdictions apparently embrace the general weight of authority with respect to trade secrets and the enforceability of restrictive covenants not to compete. See *Dunfey Realty Co., Inc.* v. *Enwright,* 101 N. H. 195, 138 A.2d 80 (1957); *Cogley Clinic* v. *Martini,* 253 Iowa 541, 112 N.W.2d 678 (1962); *Mutual Loan Co.* v. *Pierce,* 245 Iowa 1051, 65 N.W.2d. 405 (1954); *Brecher* v. *Brown,* 235 Iowa 627, 17 N.W.2d 377 (1945).

[4, 5] In *Sandlin* v. *Johnson,* 141 F.2d 660 (8 Cir. 1944), we recognized and approved the general rule that a trade secret consists of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. The subject matter of a trade secret must be secret as one can no longer claim a proprietary interest to information which becomes known to the industry by a general disclosure or a legitimate discovery. Restatement, Torts, §757 Comment (b); *B. F. Gladding & Co.* v. *Scientific Anglers,* 245 F.2d 722 (6th Cir. 1957); see also *Harris Mfg. Co.* v. *Williams,* 157 F.Supp. 779 (W.D.Ark.1957).

[6, 7] The issues of possession by plaintiff of trade secrets, confidential disclosure to defendant, and violation by him of the confidence or breach of his contract are largely factual and in a non-jury case left to the trial court's determination, which is conclusive if supported by substantial evidence. *Venn* v. *Goedert,* 319 F.2d 812 (8 Cir. 344 F 2d 735 1963); *Candlin* v. *Johnson,* supra. We are satisfied that the District Court's findings in the affirmative on these issues are amply supported by the record of evidence, including

the many exhibits, and do not warrant reversal as clearly erroneous.

Without detailing, we note some of the evidence on which the District Court perhaps relied. The defendant was hired specifically to aid plaintiff enter the crash pad field. It appears his instrumental contribution was in the development of a crash pad mold which in the jargon of the trade incorporated such new features as a "foamed-in-place structural part" and a "pre-trimmed or self-sealed edge." Defendant was not a trained chemist, nor did he consult directly on the laboratory experiments dealing with the plaintiff's development of a formula for a so-called "void-free foam" which substantially solved a problem besetting the crash pad industry for some time. However, he worked in close conjunction with plaintiff's research director, had access to such information, and was observed by several employees taking notes and having in his possession confidential data respecting the foam formulations.

It appears that as a result of this combination of qualities, plaintiff's crash pads achieved immediate acceptance and preference over its competitor, Sheller, by the big three automobile manufacturers. We think the evidence justified the finding that plaintiff's processes as a whole utilized trade secrets not generally known or used in the industry which enabled it to gain an advantage over its competitors. See *Ferroline Corp.* v. *General Ainline & Film Corp.*, 207 F.2d 912, 921 (7th Cir. 1953), cert, denied 347 U.S. 953, 74 S.Ct. 678, 98 L.Ed. 1098 (1965).

Furthermore, the defendant himself recognized the secrecy of plaintiff's processes when in memoranda and correspondence he praised the superior "knowledge" of plaintiff. Sheller officials apparently agreed that highly advantageous innovations had been attained by plaintiff

during the defendant's employ and believed that he was primarily responsible for putting plaintiff in the crash pad business. A Sheller representative located defendant in France, and arrangements were made for his personal interview in the United States under instructions to "pick his brain" and see "if he had anything to sell as a consultant" in crash pad production. Apparently convinced of defendant's valuable potential in this regard, the Sheller company hired him at the inordinate salary of $34,000.00 for six months' work. By the terms of that contract, defendant agreed to make known to Sheller all his knowledge in the field of crash pad engineering and production, notwithstanding his former agreement to the contrary with plaintiff. Moreover, defendant's testimony indicated that by this time he had forgotten his past outspoken loyalty to plaintiff. His actions, as well, demonstrated that he no longer intended to protect the secrecy of any of the information entrusted to him by plaintiff in confidence which he had previously regarded as plaintiff's exclusive "know-how" while on its payroll. At the time of trial, defendant had already visited Sheller's crash pad factory and begun his services as a consultant.

Based on these and other circumstances, we reiterate that the District Court's findings regarding the breach of contract charge were substantiated.

And finally defendant contends that the restrictive covenant of his non-competitive agreement with plaintiff is unenforceable because of vagueness and the fact that its scope and duration place an unreasonable restraint on trade.

[8] Even in the absence of the broad subject matter covered by the secrecy pledge in the Happich contract to which defendant understandingly agreed to be bound by

reference in his contract with plaintiff, we would be compelled to hold under the well established rule that the defendant was "precluded from using for his own advantage, and to the detriment of his former employer, information or trade secrets acquired by or imparted to him in the course of his employment." 35 Am.Jur., Master and Servant §99 at 528 (1941): 56 C.J.S. Master and Servant

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§ 72 at p. 484 (1948); see e.g. *O. & W. Thum Co.* vs. *Tloczynski*, 114 Mich. 149, 72 N.W. 140, 38 L.R.A. 200 (1897). And we have heretofore concurred with the District Court's finding that the defendant possessed knowledge of trade secrets belonging to plaintiff.

[9, 10] In those cases where the employee agrees in writing not to compete with his former employer, the test of the restriction's validity is whether the restraints imposed are reasonably necessary for the protection of the employer's business and are not economically oppressive to the employee. See 35 Am. Jur., supra. Plaintiff's business of manufacturing crash pads is part of the nationwide automotive industry. A restriction in area to the United States has been held reasonable when this territory was coextensive with the employer's trade. See cases collected Annot. 43 ALR 2d 94 § 125 (1955). Likewise, there is respectable authority holding that a two year time limitation to run from the date of separation with the former employer may be necessary for protection of the employer's trade secrets or confidential information depending on the circumstances of the case. See Annot 41 ALR 2d 15, § 115 (1955). Here, the plaintiff faced irreparable injury to its competitive advantage in the crash pad industry if the defendant had been permitted to continue to divulge to Sheller the techniques responsible for plaintiff's pre-

eminence in the field. While on the other hand, defendant's right to earn a livelihood employing his general experience and skill in the production of crash pads and related items has not been unreasonably restricted by the injunction. He is still free to consult on these items outside the United States for any of his former European employers, there being little doubt that his services are still much in demand.

Nonetheless, it is for the trial court to decide the nature and extent of the injunctive relief to which the plaintiff is entitled when confidential disclosure and violation are found. *Sandlin* vs. *Johnson,* supra.

The judgement of the District Court is affirmed.

(Title of Court and Cause)

(Filed July 30, 1964)

ORDER

This matter is now before the Court upon the issue tendered in Count 1 of Plaintiff's Complaint. Trial of said issue was held on July 20 and July 21, 1964. The evidence tendered and the exhibits offered at the hearing on preliminary injunction held on May 27, 1964 were adopted and made a part of the trial record on the issue now before the Court.

After hearing the testimony adduced by plaintiff and defendant and examining the exhibits submitted and having considered all of the briefs and arguments filed in this matter, the Court makes the following findings:

1. The Court has jurisdiction on the basis of diversity, and the amount in controversy exceeds the sum of $10,000, exclusive of interest and costs.

2. The defendant entered into an employment agreement with plaintiff dated November 5, 1962, which has been identified herein as Exhibit II. Said employment agreement contained a provision whereby defendant agreed not to work for competitors of plaintiff in the United States for a period of two years. The terms of the restrictions are more fully set out in an agreement on Secrecy and Competition identified herein as Exhibit I, which terms were incorporated in Exhibit II by reference.

3. Defendant has breached the aforementioned agreement, Exhibit II, by entering into an agreement with Sheller Manufacturing Corporation, which agreement has been designated as Exhibit M-9 herein, and the defendant is now and has been employed by Sheller Manufacturing Corporation since April 20, 1964 pursuant to this agreement.

4. The Court has considered the following factors in connection with the nature of defendant's employment as a consultant: From the evidence before the Court, it is clear that in such a position a consultant must have free access to the information in the possession of his employer to be effective. The Court has considered the fact that the consultant's work is generally of short duration, as it was in the present instance. It is obvious from the record in the case that the loyalties in such a situation can be short-lived, as the testimony by the defendant in this case clearly demonstrates. It seems to the Court that under the circumstances some protection is necessary for the former employer, the plaintiff herein. The Court considers the non-competition agreement of the type now before the Court in Exhibits I and II to be reasonable and necessary if the consultant is to be used effectively. The defendant's own Exhibit M-9 demonstrates the need for secrecy in that the contract of employment between Sheller Manufacturing Corporation and the defendant contained an agreement on the part of the defendant which prohibited the divulging of secret material.

5. Considering all of the circumstances, the Court finds that the restrictions imposed on the defendant in the employment agreement identified as Exhibits I and II are reasonable, and the Court will enforce them.

6. At the conclusion of the trial, following the oral statement of the Court with respect to its findings and rulings, defendant's counsel announced their intention to appeal and then moved the Court to stay the injunction pending such appeal. The Court has carefully considered Rule 62(c), 28 U.S.C.A. 1292 and the balance of convenience rule. It seems clear that this Court has the discretionary right

to allow or deny the requested stay order, assuming defendant's interest to be bondable. There is here a definite danger of disclosure by defendant in the face of his continued employment by Sheller Manufacturing Corporation. Considering the real risk of irreparable injury to plaintiff should the injunction be stayed, compared with the relatively minor harm or inconvenience to the defendant should the injunction stand, the Court finds that to stay order should be granted. The equities, judged under the balance of convenience rule, so require. The injury to plaintiff which would follow a stay order could be great and immeasurable. The prejudice to the defendant, which a stay order would avoid, is not sufficient to justify a relaxation or suspension of the injunctive relief to which the Court believes the plaintiff is entitled. A stay order should be denied under the evidence in this case if the injunctive protection is to be effective.

It is therefore ORDERED—

(A) Defendant is hereby enjoined from taking or continuing employment with Sheller Manufacturing Corporation or with any other company in the United States acting in direct competition with plaintiff in the automotive industry.

(B) Defendant is hereby enjoined from communicating or disclosing in any manner technical information to the said Sheller Manufacturing Corporation, its officers, employees or representatives, or to any other company in the United States acting in direct competition with plaintiff in the automotive industry. This injunction, however, does not prohibit defendant from communicating with the said Sheller Manufacturing Corporation with respect

to his personal affairs such as salary and severance matters.

(C) This injunction shall remain in full force and effect until August 1, 1965.

(D) A stay order, pending any appeal, shall not be granted.

(E) The matter of damages arising from defendant's breach of agreement with plaintiff is continued for further hearing.

To all of which defendant excepts.

Dated this 30th day of July, 1964.

/s/ Roy L. Stephenson
Chief Judge

APPENDIX C

Building Trades Council v. *N.L.R.B.*

McGOWAN, Circuit Judge:—Petitioners are labor organizations who seek review of a National Labor Relations Board order finding them in violation of Section 8(b)(4)(B) of the Act, 61 Stat. 140 (1947), as amended, 29 U.S.C. §158(b)(4). The Board, in its answer, requests enforcement. Petitioners challenge the Board's action on both substantive and procedural grounds, arguing that their contract was not illegal, and that, in any event, the Board's determination to the contrary was arrived at in a manner incompatible with applicable requirements as to notice and hearing. We do not reach the first issue, because we agree with petitioners' claims in respect of the second.

I. On September 23, 1963, petitioners started picketing at the site of an apartment construction project in Fort Wayne, Indiana. The general contractor was Centlivre Village Apartments, which employed directly various persons belonging to petitioners. Certain parts of the construction were subcontracted, and one of the subcontractors, Kimes & Kocks, did not employ petitioners' members. The pickets bore signs stating this latter fact, and representing that such employees were working for substandard wages as compared with petitioners' members. Although the signs also stated that they were informational only and "Not Intended To Induce Anyone To Stop Working On This Project." the appearance of the pickets resulted in a closing down of substantially all work on the site. Centlivre sought a meeting with petitioners, which was held on October 8. There is some conflict among the versions of what happened at that meeting, but it is clear that Centlivre emerged from the meeting with two typewritten contract forms which it said had been handed to it by peti-

tioners in response to its query as to what had to be done to get the pickets removed. One form of agreement was designed for use between petitioners and a general contractor, and the other between petitioners and a subcontractor. They provided in effect that only employers having labor agreements with petitioners would do work on the project. The meeting adjourned upon Centlivre's assertion that it would study the proposals. This study resulted in its filing, on October 11, of unfair labor practice charges to the effect that petitioners had violated Section 8(b)(4)(A)[1] by picketing to secure a "hot cargo" agreement of the kind banned by Section 8(e).[2]

On November 13, 1963, the Board's Regional Director issued the complaint upon which the Board's proceedings are based. This complaint charged essentially that, beginning October 8, 1963, petitioners had been picketing Centlivre's project with the object of forcing Centlivre to enter into an agreement to refrain from doing business with Kimes & Kocks or any other employer not signatory to such a contract. This picketing, for this object, was charged to be an unfair labor practice within the meaning of Section 8(b)(4)(A) and (B). At the hearing, the opening statement on behalf of the Board's General Counsel made clear that "General Counsel is not alleging any violation from the beginning of the picketing [September

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[1] Two weeks later the charges were amended to include an alleged violation of Section 8(b)(4)(B). Presumably this was in response to what appears hereinafter to have been the Board's assumption at that time that any picketing violative of 8(b)(4)(A) must of necessity violate 8(b)(4)(B).

[2] A proviso to Section 8(e) purports to render its terms inapplicable in the construction industry, but, as will also be seen hereinafter, at the time in question the Board had taken the position that, even in the construction industry, picketing was illegal if its object was to secure an agreement of the kind generally proscribed by Section 8(e).

23] to the meeting that you will hear testimony on [October 8]. It is only from that meeting on that we are alleging a violation." It was made equally clear that the violation claimed rested upon the appearance of the "hot cargo" agreements at the October 8 meeting and the consequent inference that the object of the picketing was to force Centlivre to enter into such an agreement.[3] The 8(b)(4)(A) violation was expressly characterized as "derivative" to the 8(b)(4)(A) charge.

The Examiner found the the "unlawful objects of [petitioners] . . . are well evidenced as a result of the October 8 meeting and of the contracts demanded in order that the picketing be stopped." He regarded the contracts as within the ban of Section 8(e) of the Act, except as the proviso in that section permits them in the construction industry *on a purely voluntary basis.* He recognized that this last-mentioned qualification is not in the statute, but represents, rather, a gloss upon it by the Board in its decision in *Construction Laborers Union* (Colson and Stevens Constr Co.), 137 NLRB 1650, 50 LRRM 1444 (1962), where it was held that picketing to secure a "hot cargo" agreement is illegal, even in the construction industry. Describ-

[3] Counsel's full explication of the theory of his case was as follows:

Mr. Grove: General Counsel will prove by a proponderance [sic] of evidence that picketing took place in this case and there was a meeting in which the General Counsel alleges that the picketing took place on the nature of a threat to have the party, Centlivre and the other subcontractors on the job enter into contract that is banned by Section 8(e) of the National Labor Relations Act.

And, also, we allege and will prove that there is a derivative of 8(b) 4 (b) violation of the Act if the parties did sign this contract, they would be required to cease doing business with certain of the subcontractors on the job site.

The main theory in this case is we are proceeding upon the Colson and Stevens Construction Company case, which is 137 NLRB 1650, 50 LRRM 1444. The evidence will also show, although we are not alleging as a violation, that the contracts involved are not protected by the construction industry proviso of Section 8(b).

ing himself as "bound by the Board's decision in Colson and Stevens," the Examiner found a violation of Section 8(b)(4)(A), and derivatively, of Section 8(b)(4)(B).

The Board took a different tack. It noted that its Colson and Stevens order had been set aside by the Ninth Circuit (*Construction Laborers Union* vs. *NLRB,* 323 F.2d 422, 54 LRRM 2246 (9th) Cir. 1963), and that two other Courts of Appeals, including this one, had rejected its Colson and Stevens analysis (*Essex County and Vicinity District Council of Carpenters* vs. *NLRB,* 332 F.2d 636, 56 LRRM 2091 (3rd Cir. 1964); *Orange Belt Dist. Council of Painters* vs. *NLRB,* 117 U.S. App D.C. 233, 328 F.2d 534, 55 LRRM 2293 (1964); *Building and Constr. Trades Council* vs. *NLRB,* 117 U.S. App. D.C. 239, 328 F.2d 540, 55 LRRM 2297 (1964)). It announced that, upon re-examination of the question, it had concluded to change its position and to agree with the courts at least to the extent that picketing to secure a "hot cargo" contract in the construction industry is not a violation of Section 8(b)(4)(A). Accordingly, it dismissed "that portion of the complaint which alleges a violation of that section of the Act."

It went on, however, to sustain the Examiner's finding of a violation of Section 8(b)(4)(B). This violation having been in the Examiner's view, simply an automatic derivative from the 8(b)(4)(A) violation, the Board felt it necessary to say that "we do not adopt the Trial Examiner's rationale, which was based on decisions we have now overruled, but rest our decision on our finding that the picketing has as *one of its objects* forcing or requiring Centlivre to cease doing business with Kimes & Kocks..." (Emphasis supplied). It purported to find in the record ample evidence to establish this object, as well as the one of forcing the execution of "hot cargo" contracts. It said that the mere

fact that it had now decided to reverse itself and to regard the latter object as legal did not render simultaneous pursuit of the other object any less illegal.

Petitioners, before seeking review here, moved the Board for reconsideration, asking, alternatively, that the complaint be dismissed in its entirety, or that the order be vacated with a remand to the Regional Director for the issuance of a new complaint containing independent Section 8(b)(4)(B) allegations and for the taking of additional testimony. The Board denied the motion.

II. In its decision the Board proclaimed its purpose to continue to find a violation of Section 8(b)(4)(B) in those cases where picketing, although addressed to the newly-legal object of securing "hot cargo" contracts, is also shown by the evidence to have the additional object of causing "a cessation of business between a neutral general contractor and an existing and identified nonunion subcontractor and an existing and identified nonunion subcontractor." As indicated above, we do not find it necessary, for the disposition of this review proceeding, to explore or to express an opinion about the merits of this position. What we do hold is that the Board erred in electing to apply it in this case.

The scheme of the statute is that the conduct identified in Section 8(b)(4) is or is not illegal, depending upon its object. To allege a violation it is necessary to specify the object of the challenged activity. We think it beyond cavil that this complaint alleged only the object defined in Section 8(b)(4)(A), namely, to secure the execution of an illegal agreement. If picketing for this object was proved, Section 8(b)(4)(A) was, in the then state of the law as laid down by the Board, violated; and a violation premised upon that theory carried with it ineluctably a derivative

violation of 8(b)(4)(B). The General Counsel stated on the record that this was the case—and the only case—he proposed to prove. The Trial Examiner stated in his report that he was bound by the Board's decision in Colson and Stevens to find against petitioners on that theory of what was charged and what was proved. It was only after petitioners had responded to this charge and this proof—and after the record was closed—that the Board decided to jettison Colson and Stevens but to hold against petitioners on an admittedly new and different theory. It denied petitioners' request that, at least, the matter be remanded for further hearings on a complaint charging the new object. This is not, either in our view or, more importantly, that of Congress,[4] the way to go about unveiling a new and altered construction of the Act.

The Board now justifies this handling of the matter principally upon the ground that petitioners were not prejudiced since they "were not precluded from raising any

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[4] The authority to issue complaints resides in Section 10(b) of the Act, which refers to "a complaint stating the charges" in respect of what is claimed to be an unfair labor practice. Judge Medina has characterized the Congressional purpose in this regard in these terms, *Douds* v. *International Longshoremen's Ass'n*, 241 F.2d 278, 283, 39 LRRM 2682 (2d Cir. 1957):

> The complaint, much like a pleading in a proceeding before a court, is designed to notify the adverse party of the claims that are to be adjudicated so that he may prepare his case, and to set a standard of relevance which shall govern the proceedings at the hearing. . . . This purpose is amplified in the Administrative Procedure Act (see Sections 5(a)(3) and 5(b)(1), 60 Stat. 239, 5 U.S.C. § 1004 (a) and (b)), and is reflected in the Board's own formulation of procedural policies. See also *NLRB* v. *Sands Mfg. Co.*, 306 U.S. 332, 4 LRRM 530 (1939); *NLRB* v. *Johnson*, 322 F.2d 216, 54 LRRM 2136 (6th Cir. 1963), cert. denied, sub nom. *Taylor* v. *Johnson*, 376 U.S. 951, 55 LRRM 2769 (1964); *NLRB* v. *Threads, Inc.*, 308 F.2d 1, 51 LRRM 2074 (4th Cir. 1962); *International Union of Elec. Workers* v. *NLRB*, 110 U.S.App.D.C. 91, 289 F.2d 757, 46 LRRM 2534 (1960); *NLRB* v. *Kanmak Mills, Inc.*, 200 F. 2d 542, 31 LRRM 2187 (3rd Cir. 1952); *NLRB* v. *Bradley Washfountain Co.*, 192 F.2d 144, 29 LRRM 2064 (7th Cir. 1951).

available defenses." This is a curious ratiocination when one pauses to reflect that these "defenses" relate to a charge that was not made. It can also be said that there can be no prejudice because the Board had the benefit of petitioners' brief in support of their motion for rehearing. When what that brief urged as a minimum measure of relief was the necessity of a new hearing to take evidence on a new charge, the force of the Board's point in this regard is, at best, elusive.

If, on the new theory, petitioners were violating Section 8(b)(4)(B) by their picketing after the October 8 meeting, they would seem to have been violating it before that meeting and throughout the period from the inception of the picketing on September 23. But the complaint limited its accusations to the period after October 8, and trial counsel for the Government expressly disclaimed any assertation of illegality prior to October 8. We think petitioners were entitled to assume that they had only to defend against a charge that their illegal object was to secure illegal contracts. They were found guilty by the Board of entertaining an entirely different object.

The Board now says that no harm was done because petitioners presumably would not have defended themselves any differently. But this is a speculation we do not indulge. Lawyers customarily try cases by reference to the issues framed in the pleadings in advance of hearing, and not in anticipation of new issues which possibly may be announced by the court in its opinion. The Board not having been disposed to remand this matter for further hearings upon petitioners' request, we feel no compulsion to do so ourselves. A considerable amount of time has elapsed since the events occurred which gave rise to this proceeding, and we are inclined to think that the merits

of the Board's post-Colson and Stevens approach can best be explored, with the maximum of fairness both to the Board and to the respondent, in a setting where that approach can be asserted from the first.

The case is remanded to the Board with directions to set aside its order and to dismiss the complaint.

It is so ordered.

Concurring Opinion

DANAHER, Circuit Judge, concurring:—I quite agree with most of Judge McGowan's cogent discussion and certainly with his conclusion that the complaint should be dismissed, but I reach that result on a different basis. It seems to me the Board is simply *saying* it has changed its position with respect to its decision in Colson and Stevens Construction Co., 137 NLRB 1650, 50 LRRM 1444. At the same time, the Board here has come out exactly where we find it as if the Colson and Stevens order had never been set aside. The Board rests upon its finding "that the picketing had as one of its objects" that of coercion of Centlivre Apartments to refrain from doing business with one the subcontractors, Kimes and Kocks.

In other words, the Board was here holding that the petitioner might lawfully try to procure a promise in writing that the contractor would cease doing business with the subcontractor, but that it is unlawful for the petitioner to have the intention of enforcing that promise. The Board thus would skirt the decisions cited by Judge McGowan which rejected the Board's Colson and Stevens doctrine.

The case was tried on the theory then held by the Board that the picketing was illegal if its object was to secure a

"hot cargo" agreement even in the *construction* industry. When that premise disappeared, so did the complaint.

I think the Board should have faced up to the merits. In that approach the Board would have been required to grant the petitioners' motion for reconsideration on the alternative ground, and thus have dismissed the complaint.

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In the Supreme Court of the United States

OCTOBER TERM, 1965

No. 674

DIETER HULSENBUSCH,
PETITIONER,

v.

THE DAVIDSON RUBBER COMPANY,
RESPONDENT.

RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI

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RESPONDENT'S BRIEF IN OPPOSITION TO PETITION FOR CERTIORARI

The Petition for Certiorari only raises issues of fact of a type not normally reviewed by the Supreme Court and therefore, Respondent respectfully submits that it should be denied.

Petitioner has admitted, at page 5, lines 4-8, of the petition that the Circuit Court of Appeals has "applied the correct rule of state law and public policy." Petitioner, therefore does not challenge the interpretation of law, but contends that there was neither evidence nor a finding below that Petitioner had in his possession Respondent's trade secrets.

It is true that the Trial Court protected Respondent from having to make a full display of its trade secrets on the public record, but still there was a great deal of evidence that Petitioner had such information in his possession (see Exhibits V, VI, 7-10; 16-19; 24 and 25).

Moreover, the Trial Court did find that Petitioner was trading on this information (R. 436A, line 6).

Accordingly, the basis for the Petition is factually erroneous, but even if it were not, it is well settled that the Supreme Court does not grant Certiorari for the mere review of findings of fact of the sort involved in the instant case-; *United States* v. *Johnston,* 268, U.S. 220, 227 (1925); *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.,* 336, U.S. 271, 275 (1949).

An order denying the petition is, therefore, respectfully requested.

Respectfully submitted,

ROBERT B. RUSSELL
Attorney for Respondent

IN THE

Supreme Court of the United States

OCTOBER TERM, 1965

No. 674

DIETER HULSENBUSCH,
Petitioner.

vs.

THE DAVIDSON RUBBER COMPANY
Respondent.

Petitioner's Reply
To
Respondent's Brief In Opposition

Respondent completely fails to answer or to address itself to either of the basic and significant legal questions upon which our Petition is predicated.

Respondent's Brief in Opposition is based upon a statement which is not true and upon a position which is misleading and is neither valid, fair nor forthright. Respondent erroneously states (p. 1):

> "The Petition For Certiorari *only raises issues of fact* of a type not normally reviewed by the Supreme Court . . ."[1]

There were *no "issues of fact"* in respect of which Petitioner seeks a review. To the contrary, the Petition herein is based upon—

(a) The Federal District Court's *error, as a matter of law,* in refusing to follow controlling *State law* and policy (contrary to *Frie* v. *Tompkins,* 304 U.S. 64 (1938)), holding that it was not necessary or proper to consider or to permit Petitioner to inquire into or to proffer proof upon the subject of whether or not Respondent possessed trade secrets not generally known in the industry.[2]

The *review sought* by Petitioner herein on point (a), contrary to the assertion of Respondent, is *not of "issues of fact," but* of an error of the Trial Court *as a matter of law.* The Trial Court erroneously refused to consider and denied Petitioner the opportunity to proffer essential proof relating to claimed trade secrets —based upon the erroneous conclusion that a determination of such proffered facts or issue thereon was not essential or proper *as a matter of law.*[3]

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[1] Emphasis supplied.

[2] Under controlling State law, as acknowledged by the Circuit Court in the case at bar, the covenant not to compete in the employment contract between Petitioner and Respondent is invalid, contrary to public policy and unenforceable unless there is clear proof that Respondent employer possessed trade secrets which were communicated to Petitioner.

[3] Respondent's motion for a separate trial of Count 1 (granted by the Trial Court) was designed to limit the hearing solely to "the meaning of the said Agreement and conclusions of law as to its validity and enforceability" (R. 59-60A). Respondent asserted in its memorandum in support of this motion that a separate trial of Count 1 would "obviate the present need to inquire into the nature and scope of Davidson's technical information," (R. 76-77A). See our Petition, pp. 15-20.

(b) The flagrant denial of basic due process of *law* by the Circuit Court of Appeals affirming the judgment below by adopting the correct rule of law (rejected by the District Court), but erroneously assuming that the District Court made "findings" on essential "issues," when the District Court made no such findings and expressly refused to try such issues.

Both of these propositions (a) and (b), upon which Petitioner herein seeks review, raise fundamental *questions* of Constitutional *law*, and *not*, as Respondent asserts, *"issues of fact."*

Since only questions of basic law are here in question, the cases relied[4] upon by Respondent (p. 2) to support its opposition to the Petition for a Writ of Certiorari on the ground that the Supreme Court does not grant certiorari *"for the mere review of findings of fact,"*[5] are inapplicable.

Interestingly, in *Graver Tank & Mfg. Co.* v. *Linde Air Products Co., supra,* (cited by Respondent herein), this Court in affirming the findings and conclusions of the lower Courts that Petitioner (defendant below) had infringed Respondent's (Plaintiff below) patent, relied heavily upon the extensive testimony proffered by Respondent (during a trial of "some three weeks") to the effect that the patent was not covered by "prior art" and that the Trial Court "wrote a careful and succinct opinion and made findings covering *all* the factual issues." (p. 275). Moreover, the Court noted that–

> *"The petitioners introduced no evidence* to show that their accused flux was derived either from the prior art, by independent experiment, or from any source other than the teachings of the patent in suit . . . " (p. 276)

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[4] *United States* v. *Johnston,* 268 U.S. 220, 227 (1925); *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.,* 336 U.S. 271, 275 (1949).

[5] Respondent even mistakes the law on this proposition, for his own cases (particularly the most recent, *Graver Tank & Mfg. Co.* v. *Linde Air Products Co.,* (*Supra*)), indicate that this Court will review findings on certiorari where the findings are "clearly erroneous." (336 U.S. 271, 273-5).

Directly contrary to this Court's conclusions in *Graver Tank* that proof of the existence or non-existence of prior art is relevant in determining the validity of a patent, in the case at bar, the Trial Court erroneously refused to consider or to permit Petitioner to inquire about or offer proof (a) in respect to Respondent's claimed trade secrets, or (b) to show that such claimed trade secrets "were generally known and used in the industry." ["Prior art," knowledge or use].

As the Court of Appeals in the case at bar held below (344 F. 2d, 735), a manufacturing process does not constitute a "trade secret," entitled to the protection of the law if it "is generally known or used in the industry."

Petitioner was denied the opportunity to inquire about or to offer proof on this subject; the Trial Court refused to try this issue (erroneously concluding that such proof was not essential to determine the validity of the covenant not to compete) and made no findings upon this basic question.

This Court's concern about adequate proof on the question of prior art for determining the validity of a patent in *Graver Tank & Mfg. Co.* v. *Linde Air Products* should here obtain. Petitioner should not be denied the opportunity to show that Respondent did not possess trade secrets and that its processes were "generally known or used in the industry."

Nor should the Court of Appeals' affirmance of the judgment of the District Court be permitted to stand, where as here, it was predicated upon a clearly erroneous assumption that the Trial Court had considered these factual questions, had permitted Petitioner to proffer proof thereon and had made specific findings in respect thereto—when in fact, the Trial Court had not done so.

It is no answer for Respondent (p. 2) to say that while "the Trial Court protected Respondent from having to make a full display of trade secrets on public record . . . still there was a

great deal of evidence[6] that Petitioner had such information in his possession" upon which either of the Courts below could predicate the Judgment.

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[6]Respondent's reference to so-called "evidence" of trade secrets of Respondents, in the main, relates to "evidence" offered *at the hearing on the order to show cause for a temporary injunction.* After Respondent had rested at this hearing on the order to show cause, little time remained for Petitioner to proceed in the day allotted for this hearing. By consent, the restraining order was modified to permit Petitioner to continue working for Sheller until trial, with certain limitations.

Prior to trial, Petitioner, by discovery, sought to ascertain what trade secrets Respondent claimed to have communicated to Petitioner so as to be able to show (a) these were not trade secrets, and (b) they were generally known and used in the industry. As pointed out hereinabove and in our Petition (pp. 12-20), upon motion and objections of Respondent this inquiry was precluded, not only prior to trial, but throughout the trial of Count 1, in which the Court held the question of trade secrets was not a permissible subject of inquiry or essential to a determination of the case.

Moreover, the so-called "evidence" is not competent proof of trade secrets. Ex. 7-10, relied upon by Respondent, were ex-parte affidavits offered at the hearing on the order to show cause. Petitioner objected to these affidavits on the grounds that the affiants were not present and he was denied the right to cross-examine. (Petitioner's Brief, p. 30). Petitioner prior to trial, took the deposition of one of the affiants and, upon cross-examination, sought to ascertain precisely what the witness claimed were trade secrets communicated to Petitioner. The witness was directed by Respondent's counsel not to answer and the Court ordered that he be not required to do so. Throughout the trial, upon Respondent's objection, the Trial Court excluded proof on the subject which Petitioner sought to elicit. (See Petition, pp. 12-18).

Ex. V and VI are no proof in and of themselves of any trade secrets of Respondent regarding "crash pads." Nor are Ex. 16-20 since they relate to a period from 1958-1960 which antedates the time Respondent claimed it developed such alleged secrets in respect to the manufacture of crash pads (to wit: 1962-63). Nor do Ex. 24 or 25 in and of themselves establish trade secrets on crash pads not generally known in the industry.

At all events, whether they do or not, Petitioner was denied an opportunity to cross-examine in respect thereto or to offer proof thereon; the Court held that the subject of trade secrets was not essential to a determination of Count 1 (the only Count tried) and held that he would not consider this issue. To now conclude that there was evidence and that the Court made findings thereon and considered the issue, would be a rank and clear denial of due process and is hardly a standard for a "fair trial," which this Court should countenance.

The point is, Petitioner was denied the opportunity to inquire into or proffer proof, or inquire into the basic question–

> "Q. Would you state what information you gave Mr. Hulsenbusch that you claim constitutes a trade secret or confidential information." (R. 573A; 62A; 87A).

and the Trial Court ruled that this subject was not an issue before the Court.

The Trial Court granted Respondent's motion for a separate trial on Count 1, on the basis that to determine the validity and enforceability of the covenant not to compete, inquiry into the subject, nature or scope of trade secrets was not essential. (Petitioner's Brief, p. 13-16). At the outset of the trial of Count 1, the Trial Court ordered Petitioner thus: "You are not going into the matters of secrecy" or "what the secrets were" (R. 238-9A) and at various other points precluded inquiry designed to show that the processes or designs were "used by everyone who makes crash pads." (R. 369A). See Petitioner's Brief, pp. 17-18.

The Court ruled that this inquiry into trade secrets "hasn't anything to do with the issue I am trying today . . . " (R. 375A). "The Court does not consider it essential to the decision of the Court that I examine any of the secret material . . . and I am not going to do so." (R. 424A).

Respondent (p. 2) would have this Court believe that the Trial Court found that Petitioner was "trading" on Respondent's trade secrets, ("this information"), citing R. 436A. The Trial Court made no finding on the subject of trade secrets. The record page cited does not contain any such "finding." Moreover, the colloquy there relates to "information," which is not synonymous with a finding or proof of trade secrets. Clearly, the Trial Court, having refused to try the issue of trade secrets or to permit inquiry or proof by Petitioner relating thereto, could not validly make a finding on that subject, nor did the Trial Court do so. (Petition, pp. 18-19).

To permit an affirmance of the judgment below upon a correct rule of law, but denying Petitioner the opportunity and right to a trial of the issues essential thereto, as this Court has held,[7] is *"substantially to deny* to the Plaintiffs . . . *Petitioner,* here, *their day in court"* and is a clear denial of due process.

The ends of justice should impel this Court to grant our Petition for a writ of certiorari.

Respectfully submitted,

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Dated: November 23, 1965

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[7] *Lutcher & Moore Lumber Co.* v. *Knight,* 217 U.S. 257 (1909); Cf. *Securities and Exchange Commission* v. *Chenery Corp.,* 318 U.S. 80,88 (1942). See other cases to same effect cited in our Petition For a Writ, pp. 29-30.